Profile's Corner

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PROFILE
FINANCIAL SERVICES

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PROFILE UPDATE

Welcome to the latest issue of our quarterly client newsletter. In this section, we update you on what's happening at Profile.

Our second ***Client Satisfaction Survey*** is now complete, and we would like to thank all our clients who took the time to let us know what they thought about our services. More than 60 clients responded in total, giving us a very robust sample size. The lucky winner of the $500 travel voucher prize was Lesley McDonald – congratulations Lesley, and we hope you have a fabulous trip!

Overall we are very happy with the results, with clients scoring us on average 8.6 out of 10 for the services we provide. We are analyzing the detailed responses to the survey and, as we did last year, we will keep you posted on the changes we plan to make as a result of your feedback.

Our ***main seminar for 2012*** is coming up on 27 November - your hard copy invitation should hit your mailbox shortly! This year, as well as our usual update on the state of investment markets, we are planning to cover the very topical issue of 'Frauds and scams – how safe are you online?'

Online transactions are now a daily fact of life for most of us. Checking portfolios, banking, booking tickets, shopping, downloading books, TV and movies, skyping – it would be a rare Australian who doesn't exchange data online these days. PWC estimates that 9.6 million Australian adults will make a purchase online during 2012. But along with this spectacular growth, we've seen a commensurate increase in fraud.

A kind stranger in Africa is willing to pay us millions to help them transfer assets out of the country. Microsoft, in an unprecedented display of proactive client service, rings us up to help us remove a hitherto unsuspected virus. Perhaps the bank needs to re-set our PIN, or we've won a lottery we never even entered. A friend sends us what sounds to be a great deal on cheap prescriptions. Or maybe the AFP's locked our computer until we pay a fine.

Many intelligent people are caught by frauds, which are getting increasingly plausible and hard-to-detect. And the consequences can be dire, from loss of cash, through identity theft and long-term credit & banking problems, through to painful contact with organized crime rings.

We think this is a very important topic, particularly in investing where the consequences of getting caught by a scam can be devastating. Make sure you diarise the 27th if you haven't already (a choice of afternoon or evening session), and look out for the invitation proper to come shortly!

Wayne Swan recently announced a number of ***interim budget measures*** aimed at still delivering a full-year budget surplus despite a projected fall in government revenue. It seems likely that some of the measures could affect Profile's clients – we will cover this topic also at the seminar on the 27th.

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INVESTMENT UPDATE: THE LAW OF UNINTENDED CONSEQUENCES

By Jai Parrab, Head of Investment Research & Portfolio Manager

Period returns to 28 Sep 2012 (%)

ASSET CLASS*	1 MTH	3 MTHS	1 YR	3 YRS (% PA)
Australian shares	+2.2	+8.8	+14.5	+1.7
International shares ($A)	+2.1	+5.1	+13.6	+1.8
Fixed interest	+1.0	+2.0	+9.6	+8.7
Cash	+0.3	+0.9	+4.4	+4.6
Gold ($US)	+4.7	+10.9	+8.8	+20.7

The 'law of unintended consequences' was first introduced by Adam Smith - the father of modern economics and capitalism - in 'The Theory of Moral Sentiments', 1759. He followed it up a few years later in 'An Inquiry into the Nature and Causes of the Wealth of Nations' - generally considered to be the first great modern work of economics.

The law of unintended consequences continues to be referenced today as a warning that intervening in a complex system tends to create unanticipated and often undesirable outcomes.

In this article I consider a prime example of this law in action today – the way in which the actions of policymakers around the world to ease the effects of the GFC could actually be setting up the conditions for our next crisis, through the mechanism of inflation.

The current crisis

In 2009, the UK Guardian and TIMES Magazine identified 25 people whose actions they believed had led the world into the worst economic turmoil since the Great Depression. Included in that list were former US Federal Reserve Chairman Alan Greenspan, Bank of England Governor Mervyn King, former US president Bill Clinton, former UK prime minister Gordon Brown, former US president George W. Bush, and a plethora of investment banking and credit rating house chiefs. (My personal favourite quote was by Senator Phil Gramm, from a Senate debate in 2001: ***"Some people look at sub-prime lending and see evil. I look at sub-prime lending and see the American dream in action."***)

With an unprecedented level of government intervention in the economy characterising the response to this crisis, it seems like common sense to reflect on the potential results. A bank bailout (Bear Stearns in March 2008), a decision to let another bank fail (Lehmann Brothers in November 2008), the injection of billions of dollars into the banking system, aggressive lowering of interest rates, the large-scale monetisation of debt designed to lower government borrowing rates and devalue exchange rates, and most recently the proposed setup of European government bailout structured vehicles and mechanism, resonate very much with historical individual decisions taken by governments and central banks. While independently the risks of these actions may have been managed, in combination however, the scope for an uncontrolled chain reaction is extensive.

Market reactions

Since the large scale sell-off in late 2008, followed by a sharp rebound through 2009, global equity markets have failed to find any sustained investment momentum. Instead, they are being flooded with wave after wave of cheap money, purportedly designed to help lower borrowing rates for households, and ease bank capital and funding pressures. And yet looking at indicators today, credit growth remains weak, European banks remain under high levels of stress, and the only things that appear to be staying up are food and energy prices, and gold. The US dollar has weakened, the Euro has weakened even more, and on the other side of the coin, the Swiss Franc and Japanese Yen have had to act as the counterweights – it's a zero-sum game. Even the Australian dollar has come back into vogue, no longer as a commodity currency, but as a safe haven!

From West to East – and back again!

The emerging markets, which were destined to be the global economy's shining knight through this crisis, are not only trying to manage their own economic transitions, but also battling a wave of capital being force-fed by foreign investors and traders. The results have been higher commodity prices (food and energy), and consequently inflation. With many of these currencies being pegged or managed to the US dollar, these countries have few tools to stem this exogenous inflation driver.

To date, the emerging markets, and most notably China, have been exporting deflation to the developed world, because of their very low factor costs of production – predominantly wages. This is all changing. Over the past several years, average weekly Chinese wages have risen around 15-20% per annum. Now tack on exogenous inflation forces, and you can start to see a disturbing pattern. As over one billion people in China continue to urbanise, demand for food and energy will rise, putting additional pressure on already elevated commodity prices.

Chinese weekly wages: 1989-2007

Source: "China Economic Review, Vol 22, issue 1, March 2011"

These higher costs of production will rapidly feed not only into domestic inflation for these economies, but also (albeit more slowly) back out into the global economy. And the impact on inflation in the developed economies could be a multiple of the input. As central banks continue to indiscriminately print money, they are weakening their currencies, meaning the cost of imported goods rises independently, as well as their underlying production costs.

Current market outlook

Of course, the way these trends eventually play out will be a function of many inputs and unknown variables. What may serve US politicians well will not necessarily be good for developing economies, and what helps China hit its planned objectives, may not be in Australia's best interests. Some investors have capitulated and left markets completely, while others have flocked to bonds.

But something that is for certain is that every time the US Federal Reserve, European Central Bank, Bank of Japan or Bank of England announces another plan to print more money, markets will rally, commodities will push higher, and inflation expectations will resurface. And then, quite soon, the effects will ease off again, as the markets look for their next sugar hit. With so many conflicting economic and political signals, markets are likely to remain in flux, cycling between inflationary fears, and deflationary angst.

The most recent price action to support this ongoing uncertainty was the sharp move higher in inflation breakeven rates (expectations) following Chairman Bernanke's recent comment that it was that Fed's intention to prioritise employment outcomes, at the potential cost of inflation.

Gold price timeline – increasing scepticism

Investors are waking up. If these same people let us get into this uncontrolled mess because they couldn't see what was happening, what makes them so able to get us out of it? Welcome to the law of unintended consequences for 2012 and beyond. For us as investors, the lesson is cautious optimism – while taking advantage of the many opportunities in markets, we must be careful not to lose sight of risks on the horizon. As you can probably guess from this article, inflation is certainly a risk that we are actively managing in the portfolios right now.

ARE YOU – OR IS SOMEONE YOU KNOW - GETTING CLOSE TO RETIREMENT? HERE ARE FIVE STRATEGIES YOU SHOULD CONSIDER NOW

If you're approaching retirement, it's more important than ever to ensure you're making the right moves. A mistake at this point could cost you dearly in the long term! And many very effective strategies need to be implemented while you're still working. Get advice now on these opportunities, and make the most of your resources while you're still earning!

1. Salary sacrifice

At this stage you're likely to be in a position where expenses are lower, and income higher, than ever before. And salary sacrifice is still probably the most effective way to boost your super. Why? If you're earning under $300,000 a year, your super contributions are generally only taxed at 15% - for most people, a much lower rate than the tax on normal income. For example, if you're on the top marginal tax rate of 46.5% (with Medicare Levy), salary sacrifice could give you a 31.5% tax break upfront.

If you are contributing the current maximum concessional amount of $25,000 per year, that will save you almost $8,000 per year in tax.

Be wary though, as if your contributions exceed the cap (which is easy to do) very high penalty tax rates are applied.

2. Transition to retirement

If you're 55 or more, you might want to think about a transition to retirement strategy. This strategy lets you draw a pension from your superannuation, even if you're still working.

Why would you do this? Income you draw from super is taxed at concessional rates if you're 55-60: and is tax-free if you're 60 or over.

Reducing your effective tax rate means you may be able to cut the number of hours you work, or increase your contributions into super. It's a great way to further top-up your super - courtesy of the ATO!

In addition, moving part of your superannuation into a pension gives you extra tax savings within the fund – as you will be paying 0% tax on all earnings and capital gains on the pension, instead of up to 15%.

Depending on your income and the amount you currently hold in super, the benefits can be very significant – many of our clients are saving over $10,000 per year with this strategy.

3. Make a lump sum contribution

Lower tax on contributions isn't the only way super can be tax-effective. The tax rate on earnings is also 15% - for most people, much less than they pay on earnings from investments held outside super.

So if you receive a lump sum (such as from an inheritance, a redundancy or a property sale), you could consider moving some into your super. You can add up to $150,000 per year to your super with this type of contribution (known as "non-concessional").

Of course, the best strategy will depend on your personal circumstances. For example, depending on how much tax you're currently paying, you could be better off keeping your lump sum invested outside super, and increasing your salary sacrifice to take full advantage of your concessional cap ($25,000). You could then use some of that lump sum to supplement the income you're putting into your super.

4. Use the bring-forward rule before you turn 65

As mentioned in point three, there's a $150,000 limit on the amount of non-concessional (after tax) contributions you can make each year. However, by using the bring-forward rule, you can combine three-year's worth of contributions into a single year, making a non-concessional contribution of up to $450,000 at once.

This could be an advantage if you have a large lump sum available - for example, if you've just sold an investment property, or a business. But you can only start using the bring-forward rule before you turn 65, so it's important to plan ahead.

Remember that if you sell an asset (such as investment property) while you're still working, you'll be subject to capital gains tax. So in some cases you may be better off selling it once you retire, if your tax rate will be lower. One possible strategy is to take out a short-term loan against your asset to fund your super contribution, then sell the asset and pay off your loan once you retire.

Tax laws are complex and everyone's situation is different, so it's essential to consult an adviser before you act.

5. Review your insurance

Approaching retirement, you may find that your wealth is greater and your debts lower (or even better, non-existent). If this is the case, you may be over-insured when it comes to your life and life and total and permanent disability insurance.

Premiums are often higher at this stage of your life so if you are over-insured, it can make sense to reduce your cover. You can then use the income you save on premiums to increase your salary sacrifice, pay off any existing debt or make after-tax contributions to your super.

Remember, while they offer a lot of potential benefits, these strategies can be tricky as well as costly if you get them wrong. It's important to get up-to-date professional advice and implementation. So if you think you or someone you know could benefit, contact your Profile financial planner.

BUDGETS FOR BUSY PEOPLE
By Phillip Win

If only I had a dollar for every time I've heard a client groan on being asked to do a budget! After 15 years as a financial adviser, I'd be a very wealthy person. The truth is, budgeting is not an easy task, and it's one that most of us have chosen to avoid. By not planning, we're hoping that somehow we'll manage to start living comfortably within our means and accumulating wealth through some mystical process whereby intention is translated into results without any intervening hard work! If you believe in "The Secret", this will make perfect sense to you. Unfortunately I've rarely seen it actually happen.

Why don't we budget properly?

It doesn't matter if you are a busy professional, small business person, student, or retiree, the process is not easy – if it were, we would all have sensible budgets that we stuck to, and reviewed at least annually!

Taking time to plan personal financial success often takes a back seat as we instead focus on business and career success, lifestyle, and family. Unfortunately the time and energy invested here doesn't always pay off. I have seen numerous cases of partnerships falling over, bankruptcies, illness, divorce etc dissipating business and career achievements, and people being left with little personally to show for a lifetime of hard work.

The good news is, it is within the control of almost all of us to live an enjoyable lifestyle now while still making sensible provision for the future. I have clients who have never earned more than about $40,000 a year, but nevertheless managed to accumulate seven figure sums by retirement. I also have (new!) clients with personal incomes north of $400,000 per year who are in debt and have very little accumulated as yet for their future.

Now, you may well be saying to yourself that this does not apply to me because I am retired! Well, retirees are not immune to "budgetitis." The need to live within your means is even more important when you're relying on your investments to support you. Once that money is spent, it's gone, and there is less prospect of generating more from other sources as the years go by.

Grandma was right!

With budgeting, it's my unenviable task to sell the old-fashioned unsexy virtues of thrift, forward planning and hard work.

But while budgeting can be tough, there are ways to make the process easier. The approach I've found most successful over the years does away with the need for detailed analysis of every bill, tracking receipts and so on. With a few simple steps you can set a realistic budget that will put you on the path to personal financial freedom. It should take no more than a single evening to complete, then update each year.

1. Set up a personal balance sheet

This is simply a statement of everything you own, and owe. Major assets & debts only are fine – it should fit on a single page. TIP: it is a good start to have your assets being greater than your debts!

Younger people will often have more debt on their personal balance sheet than assets - their home, their share of a business, perhaps an investment property and most likely a motor vehicle. Mid-career people should start to see a fall in their level of debt, or at least a change in the type of debt from non-deductible (such as a home) to deductible (such as for investment). Those aiming to retire within the next 5 years or so should see a healthy net asset position that comprises superannuation, personal investments (property and shares) and perhaps their share of a business. There should be little if any debt by this stage – or at least a defined strategy to pay it off at a point in time such as retirement.

2. Plan your income for the year

The next step is to project how much income you are going to earn for the year. If you have been in business or have been employed for some years, there is a known pattern of income. Don't forget to estimate other sources of income such as from investment properties, family trusts, investments etc.

While it's optimal to do this on a financial or calendar year basis, don't let the timeframe be an excuse to not start the process now! Why not just choose the start of a month and work forward/backwards 12 months.

3. Decide your Net Asset Improvement (NAI) goal

This goal states by how much you want your net worth to improve over the year. Your NAI goal can cover asset accumulation (ie contributing to superannuation), debt reduction, or a combination of both. (It should not include any projected asset price improvement, as this is beyond your direct control.)
What is a realistic goal for NAI? If you don't know where to start, there are a couple of approaches that can help:

- One rule of thumb is to decide a set proportion of your income that you will commit to using for NAI. If you have no particular figure in mind, I generally suggest starting with a figure of around 20% of your income – it may be more if your expenses are low, and less if you are at a high expenses stage. I would generally suggest a minimum of 10% of income should be considered, however. If this is problematic then a major re-think of spending may be required!
- An alternative approach is to calculate the amount you will need to commit each year to ensure you're on track to deliver the income you require once you stop work. The calculations can be complex and small changes to the assumptions you use can have a very big impact on whether you're likely to achieve your overall goals. Financial advice is generally very helpful here. At Profile, we use the Profile pathways modeling tool to assist you with the calculations.

So – do you have a budget yet?

If you have followed the process, you will have the following three items:

(1) A personal balance sheet
(2) The income that you are going to earn over the next 12 months
(3) A NAI goal

The difference between the last two numbers represents the amount you can afford to spend this year – your "expenses budget". For many people, the process can stop here. You simply direct the amount you've decided on to your chosen NAI goal (debt reduction or asset increase), and anything that's left in the bank account after that represents your expenses budget and can be spent as required.

Other people may wish to go one more step and understand at least at a high level, the makeup of their expenses each year.

4. Understand your fixed vs discretionary expenses

Your fixed expenses usually include <u>minimum</u> loan repayments, electricity, water, gas, council rates, telephone (fixed and mobile), internet, health insurance, life insurance, car insurance, car registration. This may sound a bit daunting, but all you need is a copy of your last two bills for each, and a quick snapshot of the direct debits for insurances, and you have your fixed expenses expenditure figure. You may also have additional expenses you consider non-negotiable (eg private school fees).

Discretionary expenses are simply what's left over after you've subtracted fixed expenses from your expenses budget. This can be allocated to holidays, eating out, movies, gifts, donations etc.

This analysis is very handy to do – it can identify whether your NAI goal is realistic, or show areas where additional savings could be made. It is very common for clients to find, after going through this exercise, that a high proportion of their income could be devoted to NAI based on estimated expenses - and yet, for several years, no savings have actually been achieved! In some cases, we see debt has been steadily increasing even though income has been high and theoretically there should have been plenty available to invest. Never underestimate the power of discretionary expenses to eat away at your financial plans!

Help is at hand!

I hope I have convinced you of the importance of budgeting, and illustrated some practical ways that this daunting task can be made a little easier.

We have a range of tools to help you formulate your budget, based on our extensive experience with many clients over the years. We can also illustrate what level of asset accumulation is required to support your lifestyle once your employment income stops, and show how long your assets will last in retirement based on various levels of income drawn down.

I strongly encourage you to do a budget sooner rather than later, as the magic of compound interest means the greatest friend of wealth is time.

Remember - it's not what you **earn**, it's what you **keep** that matters!

CLIENT PROFILE -
Phil Trinder

For this edition's newsletter, we speak with Phillip Trinder, a client with whom Profile has worked for many years. Phil's determination and hard work has led to his current role as a General Manager of Planning and Development at Westfield. Phil is extremely proud to be husband to college sweetheart Linda, and Dad to teenage daughters, Siobhan & Marie-Clare.

Phil's education began at James Ruse High School in Carlingford, Sydney. Phil still remembers gratefully his parents providing him with additional English tutoring during this time – the verbal and written skills he polished during this time have proved to be extremely valuable throughout his professional life.

Like many young people Phil hadn't yet formulated a clear career direction. Subsequently he decided, as his Dad before him, to complete an Engineering degree (Civil Engineering at the University of NSW). This very practical course with a strong focus on construction and engineering turned out to be a great choice for Phil, as he enjoyed the subject matter and did well, which he considers "…a license to learn for the next 5-10 years - during which time you adjust and adapt your career".

On first leaving university, Phil worked in construction planning for a number of years. During this time the "Recession we had to have" of the 1990's hit, but luckily for Phil he managed to stay in employment. Even this early in his career Phil demonstrated an ability to think strategically; not just as part of his role but also applied to his own personal plans.

Phil saw that the successful people around him were working consistently very long hours, 6 days per week. While certainly not averse to hard work, Phil wanted to find a position that could allow some work/life balance …..well, at least for some of the time! This led Phil to look for other opportunities, which resulted firstly in a 12 month stint at SOCOG in the run-up to the Sydney Olympics in 2000 - and then on to the Westfield Group.

Now, many years on, Phil has held five different roles at Westfield, while also somehow finding time to complete his Masters in Business Technology. Phil has held his current General Manager role for the last six years. Phil has made the most of Westfield's vertically integrated business model, starting in design construction and moving through various business units until achieving his ultimate goal with the move to planning and development. Phil greatly enjoys this varied role as it means he is involved from the very first stage of a project.

While Phil is a natural technician, he also credits much of his success to focusing on good communication. A key technique Phil uses when dealing with problems is to go directly to the source and uncover the real issues. Rather than diving in and taking control straight away, he tries to give people the opportunity to address issues themselves and succeed in their own right.

Phil recalls his toughest project which ran for almost two years and involved a huge relocation of almost 700 employees! This role broadened his skill set greatly with an even greater focus on technology and security systems in present times (including running a terrorist analysis). However, it was a high pressure role with very long hours involved. At completion, Phil decided a 6 week holiday was in order – his first holiday of this length in 20 years! This time was spent partly with his supportive family at home in Sydney, with relatives in Tasmania (where he enjoyed the local produce on offer) and finally a surfing trip to Indonesia.

Phil credits getting through the tougher times on this project to good communication within the family, and continuing to focus on his own health - surfing, swimming and running whenever possible to clear the mind and be more productive.

Outside of work Phil is a dedicated family man with a strong belief in the importance of work/life balance. Surfing is a favourite pastime, and he recalls a surfing trip to North Sumatra, Indonesia as being one of his most memorable travelling experiences. Just as he is at work, Phil's preference when holidaying is to always be on the go and have plenty of activities – this shouldn't be a problem when he spends Christmas with the family travelling through Europe this year!

When asked what if anything he would have done differently in life, Phil is hesitant to give an answer – preferring instead to "…focus on the future and making the most of the life he has got." However, when asked of alternate careers we were surprised to learn that Phil was once offered the opportunity to be a professional tennis umpire with world travel on the cards! Phil declined this opportunity, instead deciding to focus on the more traditional route of building a professional career in Sydney.

While Phil will continue to strive for new challenges in his career, further down the track he likes the idea of being able to put his project management skills to work in assisting third world countries. As he has seen through family connections with programs such as AusAid, massive differences can be made with relatively simple developments (compared to his current projects) such as a water or sewerage treatment plant.

Phil speaks very highly of Westfield, not just from a pure business and operational perspective, but also for having old school values and loyalty. We have no doubt that the future holds great things for Phil!

GETTING TO KNOW THE TEAM AT PROFILE: SCOTT UNGARO

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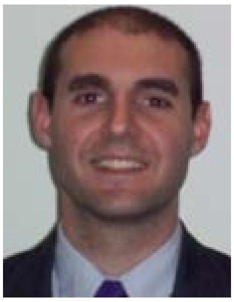

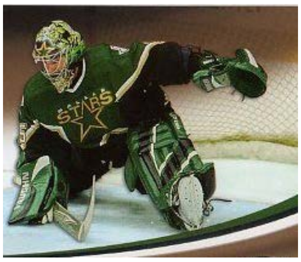

Scott's journey with Profile actually began in 2007 when Garry Ohlsen organised to have Scott complete a work/study program midway through his Master's studies. Scott officially joined the Profile team in December of 2011 as an Associate Financial Planner to Phillip Win.

Scott grew up in Dallas-Fort Worth, Texas, completing a Bachelor's in Psychology from Texas A&M University and a Masters in Financial Planning from Texas Tech University. After graduating in May of 2008, Scott moved to Sydney and began work for a small financial publishing company. He then had a short stint at UBS Wealth Management before reconnecting with Profile. Scott has completed his Diploma of Financial Planning and has started his Advanced Diploma.

In his free time, Scott is a sports fanatic. He is a die-hard ice hockey supporter who occasionally wakes up at the crack of dawn to follow his favorite NHL team, the Dallas Stars.

In addition to rafting trips, Scott has travelled to several countries around the world and is keen to see more. Some of his more interesting stops include Peru (to visit the Amazon rainforest), Honduras, Mexico, France, Italy, Austria, Germany, Slovakia, Czech Republic, Hungary, Thailand, and Vietnam. Scott is hoping it will not be long before he can complete an African safari.

Scott also enjoys the outdoors and his hobbies include playing soccer, camping, and white water rafting. He likes to recall his favourite white water rafting experience which took place in Northern Queensland on the Johnston River. Scott and 15 other rafters were air lifted via helicopter to a remote area. The adventurers took 3 days to raft their way out of the forest and back to civilisation. Scott says, "It was the most incredible experience of my lifetime and I highly recommend it to other thrill seekers!"

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